

How Australian housing patterns changed during COVID: the new normal?



Based on AHURI Final Report No. 399: The new normal: changed patterns of dwelling demand and supply

What this research is about

This research assessed the impact of the COVID-19 pandemic on recent patterns of housing supply and demand and also how the Australian housing market has changed since 2016.

The context of this research

The COVID-19 pandemic showed just how quickly demand for housing can change and how prices and rents can rise rapidly as a result. The COVID-19 period, defined in this study as mid-2020 to mid-2022, saw robust price growth within Australian capital cities and even stronger growth in regional areas. In the rental market, vacancy rates fell across the country and rents rose sharply.

The key findings

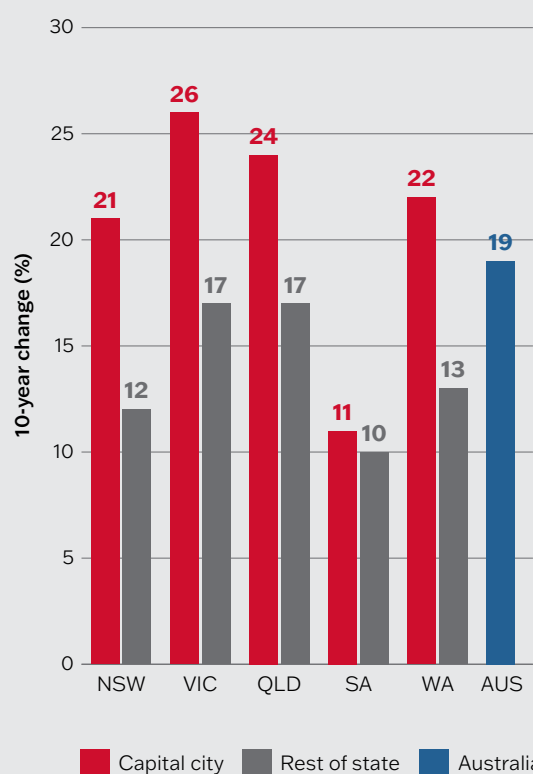
1.7 million new dwellings added in the last ten years

The 2021 Census reveals that around 1.7 million dwellings were added to the total dwelling stock in the last ten years. Victoria and Queensland have increased their share of total stock slightly, although ACT saw the biggest relative growth in supply. South Australia and Tasmania lag behind in terms of new development.

New housing supply is concentrated in cities

While the stock in capital cities generally increased by more than 2 per cent net per annum, with the exception of Greater Adelaide, new supply in 'rest of state' areas has been between 1 and 1.7 per cent, so lagging well behind.

10-year changes in numbers of dwellings in capital cities and 'rest of state'



Source: AHURI Final Report No. 399

Fewer people in households means more dwellings needed when population increases

Generally, the percentage growth in dwelling stock has exceeded the percentage growth in population. However, if there are fewer persons per dwelling, then the new housing stock has to exceed rates of population growth to accommodate smaller household sizes. For example, in Greater Sydney the average number of people per household dropped from 2.8 in 2016 to 2.7 in 2021. This means 35,700 dwellings were required to accommodate population growth of 100,000 in 2016 but this swelled to 37,000 in 2021. The average people per household rate also dropped in Melbourne and Brisbane.

Home ownership rates are falling in capital cities and increasing elsewhere

The rates of home ownership have declined over the last 15 years, falling from 70 per cent in 2006 to 67 per cent in the 2021 census. The decline has been fastest in younger cohorts. Unsurprisingly, the most expensive capital cities, Sydney and Melbourne, have seen the biggest declines in ownership over ten years, with the cheaper capital cities faring much better.

Home ownership actually increased in most regional areas. High ownership rates are a combination of an older demographic and the relative affordability of regional locations. Ownership in rest of state locations has been given a boost through population shifts driven by COVID-19.

There are fewer 3 bedroom houses, and more larger and smaller dwellings

There has been a decline in the number of three-bedroom dwellings, marginal increases in the proportion of smaller dwellings and a big increase in four-bedroom dwellings. This suggests the redevelopment of many three-bedroom dwellings into larger houses and is particularly notable in all regional areas.

In Sydney, Melbourne and Brisbane there have been increases in large scale apartment developments (four storeys or more), which has contributed to a small increase in the proportion of one and two-bedroom stock. While the proportion of separate houses declined in all capital cities over the last ten years, Adelaide and Perth did see an increase in the five years to 2021. In rest of state areas, there has been little change in the stock profile in the last five years.

During COVID house prices declined initially and then increased

The onset of COVID-19 led national property prices to a relatively minor decline of 2.1 per cent between April 2020 and September 2020. After the initial decline, dwelling prices surged and by February 2022 national prices had grown by 24.6 per cent since the pandemic's beginning, with house prices increasing more than unit prices.

Regional locations increased in popularity, which led to the CoreLogic combined regions' home value index rising by 36.5 per cent versus the combined capital cities' 21.4 per cent. However, regional markets have recently softened, with house values in 22 of the 25 non-capital city regions falling in the three months to October 2022 as higher mortgage interest rates contribute to lower demand. The number of dwelling sales have fallen sharply from COVID peaks in most regional areas.

Increased demand for established dwellings increased their prices

Construction delays and higher building costs increased the demand for established dwellings. The lack of listings created a vicious cycle of potential homeowners not going to market because of a lack of options to buy. Additionally a very tight rental market meant renting in between selling and buying a dwelling was difficult. Locations that experienced increased demand due to high levels of migration generally saw a decrease in listings as stock was absorbed and not replaced.

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Supply of new ‘separate house’ dwellings increased from mid-2020

The COVID-19 stimulus led to a big jump in commencements of separate houses from mid-2020 peaking 12 months later: WA and SA saw massive increases between the two periods, while increases were more modest in Queensland and Victoria. Outer greenfield areas received a big boost in new supply, while the vast majority of inner areas across the country saw a contraction in the number of approvals. All states saw a decline in other residential dwellings (i.e. a residence that is not a separate house), largely due to construction cost rises meaning projects were no longer financially feasible to develop.

‘The increased preference to move away from inner city suburbs was encouraged by the propensity for working from home, eliminating some of the negative impacts of increased commuter times coupled with the relative affordability of outer urban areas.’

COVID changed what people want in their housing: more space

COVID changed what households want from their dwelling: predominantly it was about having more space, both inside and out, and that was linked with the ability to work more from home. Overall, consumers continue to prefer houses over units in metropolitan areas but we are once again returning to a situation where location and affordability are the key drivers of purchasing decisions.

COVID changed where people want to live

COVID-19 created significant and distinct changes to population dynamics within each state: low or negative growth within inner urban areas; growth in regional towns and cities, particularly those associated with sea and tree changes; and strong growth in traditional first home buyer areas, primarily on the urban periphery. The increased preference to move away from inner city suburbs was encouraged by the propensity for working from home, eliminating some of the negative impacts of increased commuter times coupled with the relative affordability of outer urban areas.

Western Australia and Victoria case studies

The research examined housing transaction data in two states; Victoria and Western Australia, to unpick how the market changed during the pandemic. We compared patterns of transactions in the 18 months before the pandemic and 18 months during the pandemic. The analysis highlights similar market outcomes for WA and Victoria despite very different COVID-19 experiences, with lockdowns far more severe in Victoria.

Where dwelling prices increased in Western Australia

Analysing the top 50 Western Australian suburbs for growth in dwelling prices reveals that only three of the 50 suburbs were in the Perth capital city area. Strong price increases in mining locations and growth in regional towns and cities resulting from COVID-19 driven population movements dominated the list.

Where dwelling prices increased in Victoria

In Victoria the highest 3-year price growth was in regional locations, while the lowest occurred in Melbourne’s urban and inner-city locations. Generally, there is a correlation between Melbourne’s COVID lockdowns and the price growth of dwellings, whereby the periods in lockdown witnessed low or negative growth, followed by a significant increase as the lockdowns eased.

Rural and regional suburbs dominated the top 50 for areas for house price growth. The exodus from Melbourne to regional locations hit Melbourne unit prices, particularly inner Melbourne, harder than house prices.

Real estate agents confirm buyers want bigger houses away from inner city areas

In both states, interviews with key industry stakeholders revealed a shift in preferences with home buyers wanting to escape metropolitan areas; have larger homes and more private space; and take advantage of opportunities to work from home in lifestyle locations. New home/first home buyers who would not previously have considered non-metropolitan locations were taking up greenfield housing in regional estates and older buyers brought forward retirement and semi-retirement plans by selling dwellings and purchasing lifestyle properties.

Investors selling out of regional markets

Property sales in both Victoria and Western Australia were boosted by investors selling their rental properties, many taking advantage of rising prices. This, in turn, reduced rental availability and vacancy rates and displaced private renters. Where investors did buy into the regional areas studied, these were at higher prices which were in turn reflected in higher rents.

COVID disrupted supply chains and increased building costs

COVID-19 disrupted supply chains globally and interstate, and national/state border closures affected the labour supply. The building boom brought about by the COVID-19 stimulus measures exacerbated these shortages and dwelling completion times blew out in many parts of the country. Building costs for new homes were said to have increased by around \$150,000 over the COVID period and increased costs have subsequently reduced the demand for new separate dwellings. New housing supply, measured by building approvals and dwelling completions have dropped sharply from the COVID driven peak and Australia is now facing a housing supply shortage over the next 2 years – largely driven by increased building costs and a building industry hit hard by having to absorb these cost rises.

What this research means for policy makers

There is a need to increase housing supply in both urban and regional areas. A lack of new supply will lead to increased dwelling prices and rents. Housing supply responds to increased market demand because increasing prices generate higher returns and lower risk for developers, increasing potential profits and stimulating new supply. However, the responsiveness of supply to demand is inhibited by the availability of sites and the development approval process. Development approval is not just about planning approvals but also infrastructure

and environmental approvals. While some state governments did introduce fast-tracked development approvals during the pandemic, concerns were raised that such powers were reducing the role of the local community in the development process. Striking a balance between community consultation, environmental protection and responsive development outcomes is challenging, but critical.

Governments must continue to work on policies that make it easier to deliver housing within existing urban areas, and this housing must deliver diversity, not simply be dominated by apartments. Delivering greater housing diversity in regional areas is a major challenge, given that the economics of many markets means medium and high density development is not financially feasible for the private sector. It will take a partnership between government and the private sector to deliver more diverse housing options in many regional areas. Supporting community and not-for-profit housing in regional areas – where traditional finance and development models are less feasible but where housing demand is acute – is also critical.

Governments should take a more direct role in housing supply, including through large scale delivery of social and affordable housing, both in cities and in regional areas. Protecting supply chains and training a workforce to respond to supply pressures is also essential. The sudden impact of a large-scale shift in population toward smaller and medium sized Australian cities during COVID underscores the importance of a national settlement strategy to best understand where housing and infrastructure should be situated.

Methodology

This research analysed ABS Census; dwelling commencements, completions and building approvals data; and interviewed key industry stakeholders in two case study states: Victoria and WA, two states that went through very different experiences during the pandemic.

To cite the AHURI research, please refer to:

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Available from the AHURI website at ahuri.edu.au/research/final-reports/399